THE PROBLEM OF THE RUPEE:
ITS ORIGIN AND ITS SOLUTION
(HISTORY OF INDIAN CURRENCY & BANKING)

CHAPTER IV

TOWARDS A GOLD STANDARD

The establishment of stable monetary conditions was naturally enough dependent upon the restoration of a common standard of value. Plain as was the aim, its accomplishment was by no means an easy matter. Two ways seemed at first to be open for carrying it out in practice. One was to adopt a common metal as currency, and since all important countries of the world had gone over to the gold standard it meant the silver-standard countries should abandon their standard in favour of gold. The other was to let the gold and silver standard countries keep to their currencies and to establish between them a fixed ratio of exchange so as to make the two metals into a common standard of value.

The history of the agitation for the reform of the Indian currency is a history of these two movements. The movement for the introduction of a gold standard was, however, the first to occupy the field. The failure of the notification of 1868 may be said to have marked the failure of a policy, but the movement for a gold currency in India started in the sixties was not altogether stamped out of the country. That the movement still had life in it is shown by the fact that it was revived four years later by Sir R. Temple, when he became the Finance Minister of India, in a memorandum dated May 15, 1872. The important particular in which he differed from his predecessors consisted in the fact that while they all aimed to make the British sovereign the principal unit of the gold currency in India, he desired to give that place to the Indian gold coin, the " mohur." Why his predecessors did not do the same when the problem of correctly rating the sovereign was said to have baffled them so much is a little surprising when it is recalled that the Indian Mints had been since long past issuing the "mohur", which, as it was possible to rate it correctly, could as well have been made the principal unit of the gold currency in India. That they did not can only be explained on the assumption that they were anxious to kill two birds with one stone. The adoption of the sovereign, besides supporting a gold currency in India, was also calculated to promote the movement of international uniformity of coinage then in vogue. The utility of the " mohur " was in this respect comparatively inferior to that of the sovereign. But when Sir Richard Temple came upon the scene the prospect of some universal coin being internationally adopted seemed to be fast vanishing. At all events the Report of the English Commission on International Coinage, presided over by Lord Halifax, had pronounced adversely as to any change in the standard of the English sovereign. Untrammelled by any considerations for such a wider issue, Sir R. Temple was free to recommend the adoption of the " mohur " as the unit of currency in place of the sovereign.

"We have," he wrote, "gold pieces representing fifteen, ten and five rupees respectively; and believed to represent these several sums very correctly, as regards the relative value of gold and silver ..... that.... we should take the first opportunity to declare the gold coins legal tender to unlimited amount; that gold pieces should continue to bear the fixed relation to the rupee; that for a time it might be necessary to permit the rupee to remain legal tender to an unlimited amount, which would involve temporarily the difficulty of a double standard; that the transition period of double standard should be as short as possible, silver being reduced to a token coinage, and being made legal tender up to a small amount only; and that gold should be ultimately the one legal standard."

He proposed the ratio of 10 rupees for 120 grs. of standard i.e. 110 grs. of fine gold, but he did not share the temerity of Sir Charles Trevelyan. So intent was he on the project of a gold currency that he was prepared to alter the ratio so as to make it favourable to gold. The question of ratio, he observed, was one which

> " the Government of India ought to be able to determine. These are questions which have been determined by every nation that has adopted a gold currency. No doubt it is a difficult and important problem, but it cannot be insoluble, and it ought to be solved."

Such in outline was the first proposal for a gold currency. It was projected before the fall in the value of silver had commenced, and was therefore more a culmination of the past policy than a remedy against the ensuing depreciation of silver. In that consisted, probably, the chief strength of the proposal. It was in good time to avoid the cost of hauling up the currency which later on proved so very deterrent and caused the defeat of so many other projects. Besides, it cannot be said that at the time the memorandum was presented the Government was not warned of the impending crisis; for the wave of demonetising silver had already commenced two years before. But, for some reason not known to the public, no action was taken on the proposal.

The second plan for the introduction of a gold currency was that of Colonel J. T. Smith, the able Mint Master of India. His plan was avowedly a remedy for the falling exchange.

The plan was set forth in the first essay in the brochure, *Silver and the Indian Exchanges* and may be described in his own words as follows:—

" 6. Although it cannot be denied that the difficulty of effecting this object of restoring the Indian exchange to its normal condition is much greater now than it would have been some years ago, owing to the decline which has already taken place, yet there seems to be sufficient ground for belief that, even now, if decided measures were adopted, it would not be too late to restore the currency to its former value for home (India)) payments; and that, too, without any shock or disturbance; the principal step being that of putting a stop to the coinage of silver on private account, at the same time taking measures to discourage the importation, or at the least the circulation, of foreign-made, silver coins, and opening the Mints for the receipt of gold bullion for coinage.

" 7. To explain how this would operate, I must observe that

"8. ... the internal trade of the Empire of India has increased and is increasing...

" 9. Whatever may be the cause, the internal trade of India has, ever since the beginning of this century, required constant and steady additions to her currency, averaging during the last thirty-eight years upwards of five millions of pounds sterling per annum in value. Besides this, the returns show that the balance of imports over exports of gold bullion, during the same period, exceeded an average of two and a half millions sterling annually, having been, during the last twenty years, more than four millions per annum.

" 10. Such being the case, it appears to be a necessary consequence that, if the supply of rupees were put a stop to, the remainder must increase in local value, as compared with commodities, till they resumed the position which they held on a par with gold, at the rate of 10 rupees to a sovereign, for the fifteen years previous to 1870.

"11. After that point had been attained, it would be the interest of merchants to take gold into the Indian Mints for coinage; and they would do so, indeed, before the attainment of this improvement of the exchanges, owing to the premium or ' batta ' which would at first be obtained for the gold coins.

" 12. By this means gold would gradually be brought into India; and, as it has been shown that an addition to the circulating medium of at least five million sterling per annum is necessary, and no more silver coins being admitted (into the currency), it will slowly accumulate there....

" 13. The proposal therefore is that, after due notice, the coinage of silver on behalf of private individuals and advances upon silver bullion should be suspended; that part of the Act 23 of 1870, which makes it incumbent on the

> Government to receive and coin it, being repealed; the Government retaining in their own hands the power of replenishing the silver currency whenever they may deem it expedient. That gold bullion should be received by the Government at the mint rate of 38 rupees 14 annas per standard ounce, and coined into sovereigns and half-sovereigns (representing 38 rupees 15 annas), or ten or five rupee-pieces of the same value, which should be declared legal tender, but not demandable, the present silver rupees continuing to be legal tender, as before.

At the time the Smith plan was presented, the fall of silver had made itself felt so that a considerable support in favour of the plan was forthcoming. The support of the trading community was embodied in the resolution, dated July 15, 1876, of the Bengal Chamber of Commerce, which urged " that it was expedient, in view of any ultimate measures that the Government may adopt, that Clause 19 of Act XXIII of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also Section II, Clause (*b)* of Act III of 1871, making it obligatory on the Currency Department to issue notes against silver bullion sent in, be temporarily suspended, at the discretion of Government, and that during each such suspension or till further notice it be not lawful to import coined rupees from any foreign port." A similar feeling was voiced by the Calcutta Trades Association. By this time the fall of exchange had also commenced to tell upon the finances of the Government of India, so much so that Sir William Muir, in his Financial Statement for 1876-77, was led to observe —

> "The sudden depreciation of silver and the consequent enhancement of charge to the Government of India in laying down yearly the sum required in England of about fifteen millions sterling, without doubt cast a grave shadow on the future. In truth, it may be said that the danger, from whatever point of view considered, is the gravest which has yet threatened the finances of India. War, famine, and drought have often inflicted losses on the Exchequer far greater than the charge which threatens us in the present year. But such calamities pass away; the loss is limited: and when It has been provided for the finances are again on sure and stable ground. This is not the case with the present cause of anxiety. Its immediate effects are serious enough. .... But that which adds significance to it is that the end cannot be seen; the future is involved in uncertainty.'

In the face of such a situation nothing would have been more natural than to expect the Government precipitating into some kind of action to save itself, if not others, from an impending calamity. Far from taking immediate steps, the Government not only failed to take any initiative, but showed, when pressed by the Bengal Chamber of Commerce to act upon the foregoing resolution, a surprising degree of academic somnolence only to be expected from an uninterested spectator. No doubt the proposal of the Bengal Chamber was defective in that it did not suggest the opening of the Incyan Mints to the coinage of gold. The Government of India was sharp enough to fasten upon this defect. It made plain to the Chamber that if it had proposed the free coinage of gold.

> "such a recommendation would not have been open to the objections that appear fatal, *in limine,* to the adoption of the resolution actually adopted...... viz. to close the Mints temporarily to the free coinage of the one metal into legal-tender money, without simultaneously opening them to the free coinage of the other into legal tender money.'

Did it, then, adopt the proposal of Colonel Smith, which contained such a recommendation ? Not at all ! Why did it not, then, adopt a remedy to which it saw no objections ? The reason was that it had arrived at a different diagnosis of the causes of the monetary disturbances. To the Government the possibilities of explaining " the disturbance in the equilibrium of the precious metals" seemed to be many and varied.

(1) The value of gold being unchanged, the value of silver had fallen ; (2) the value of silver being unchanged, the value of gold had risen; (3) the value of gold had risen, and the value of silver had fallen ; (4) the value of both metals had risen, but the value of gold more than that of silver; (5) the value of both metals had fallen, but the value of silver more than that of gold. In the midst of such possibilities, marked, more by pedantry than logic, the Government warned the currency reformers that

> " the character of the remedies indicated, if the disturbance is found to be due to a rise in the value of gold, will obviously differ from what would be suitable in the case of a fall in the value of silver.

Out of these possibilities what seemed to it to be proven was that " gold had risen in value since March, 1872," and therefore if any reform was to be effected it should fall upon the gold-standard countries to undertake it. Situated as the Government of India then was, it could have suffered itself without incurring much blame to be hurried into some kind of currency reform that promised to bring relief. To have refused to allow the exigencies of a crisis to rule its decisions on such a momentous issue as the reform of currency, need not imply a spirit of obstinacy. On the other hand, it bespeaks a spirit of caution which no reader of that illuminating dispatch of October 13, 1876, conveying to the Secretary of State its decision to wait and watch, can fail to admire. But it is hardly possible to speak in a similar commendatory manner of the underlying attitude of the Government of India. Whether it is possible to hold that gold had appreciated but that silver had not depreciated may be left for logician to decide upon. But for a silver-standard country to refuse to undertake the reform of her currency system on the plea that it was gold that had appreciated was no doubt a tactical error. In military matters there is probably such a thing as depending on a position; but in currency matters there cannot be such a thing. The reason is that in the former strength sometimes lies in the weakness of the other. But in the case of the latter the weakness of one becomes the weakness of all. There can be no doubt, therefore, that the Government, in discarding its responsibility to do the needful in the matter, committed the same kind of mistake as a man who, in the words of Prof. Nicholson, " should suppose that the ship cannot sink because there is no leak in the particular cabin in which he happens to sleep."

That the attitude of inaction was unwise was soon brought home to the Government of India. Within a short space of two years it was obliged to reconsider the position taken in 1876. In a dispatch dated November 9, 1878, the Government of India observed:—

"5. It was to have been expected that a subject so encompassed with difficulties should not receive any early settlement, and it was probably the wisest, as it was certainly the most natural course, to allow further time to elapse before attempting any final solution of the grave problem it involved. The improvement that took place in the value of silver in the year 1877 favoured this policy in action; and it is only now, when a fresh fall has brought down the rupee to a value hardly greater than that which it had in July, 1876, that the serious nature of the risk which our existing currency law entails on us is once more forced on our attention by its practical effects on the Home remittances.

"21. The uncertainty that has now for some years prevailed with reference to the value of silver, and the consequent disturbances in the exchange, have...... been causes of continued financial difficulty to the Government...... and it is not possible to doubt that similar results must have been produced by these disturbances in the trade transactions of the country, or that investments of foreign capital in India, either for trading or other purposes, must have been very seriously interferred with by their influence.

" 23. Such we hold to be a true statement of the present difficulties and prospective risks of maintaining the existing Currency Law, and we feel assured that they have not been in any way overstated. It remains for us to inquire whether any practical remedy could be devised that should not be open to serious objections, or the risks attending the adoption of which should not be so great as to prohibit it. We feel most fully the heavy responsibility that will rest on us in dealing with the currency of India ; but it is plain that the responsibility for doing nothing is no less great. Whether the law is left as it is, or whether it is changed.. the result will be equally due to our action, and we cannot, if we would, avoid facing this grave question.

" 24. To obtain fixity of exchange by the adoption of a gold standard, and the substitution of a gold for a silver currency through the direct action of Government, has, we think, been conclusively shown to be impracticable by the dispatch of the Government of India of October last, and this plan therefore calls for no further notice. The increase in the weight of the rupee, also noticed in that dispatch, is equally undeserving of attention, as in fact, it would give no security for the future, and would entail a heavy charge without accomplishing the essential point to be aimed at. There remains the simpler, and first proposed suggestion, the limitation of the coinage of silver, which, though rejected in 1876 by the Government of India...; appears to us to call now for a closer examination.

"25. This suggestion in its main features is, that the Coinage Act shall be so far modified as to withdraw the free right of the public to take silver bullion to the Mint for coinage, and either to suspend it entirely in future, or limit it for a time.

" 26. It is obviously an essential part of any such scheme, if it is to have the effect of fixing the exchange value of the rupee, that the power of obtaining that coin in future shall be regulated in some manner by a gold payment, and that the relation between sterling and rupee currency shall thus be fixed irrespective of the fluctuations in the relative value of the metals of which the coins are formed.

" 27. It is not, on the other hand, an essential part of such a plan that any particular relation of value should be thus fixed at two shillings...... or at any smaller or larger proportion. All that is necessary is that the rate, being once fixed, shall remain for the future unchanged.

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"33. Probably the most important question is...... whether or not it is practicable to maintain a silver coinage as the principal element in our currency, with a very limited gold coinage, or without a legal-tender gold coinage at all. The Government of India, in its dispatch of 1876, expressed an opinion adverse to the possibility of maintaining such a system...... On a full reconsideration of this point, we are led to take the opposite view, and to think that such a system would be perfectly practicable and would lead to no material difficulty. It is true that there is no country in which such a condition of things actually exists. But those countries, and there are many of them, in which an inconvertible paper currency exists or has existed, give proof that the far greater anomaly of a currency devoid of any intrinsic value whatever is capable of performing the work of a metallic currency satisfactorily, and of maintaining its local exchange value, so long as an excessive issue is only guarded against.

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"37. (Such) instances (as the British shilling and the French five franc piece) seem to show that neither in the way of surreptitious coinage, nor of discredit from depreciation of intrinsic value, it is probable that there would be any serious difficulty in keeping the rupee in circulation at its present weight, at a nominal value of two shillings, with a gold standard and a partial gold coinage.

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" 46. We are thus led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard, while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained. We consequently desire to recommend to Her Majesty's Government the adoption of such a change at the earliest moment possible, and we shall proceed to explain, in all necessary detail, the measures by which we advise that it should be effected.

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" 50. It has to be borne in mind that it is not the object of our action to force on India a gold currency, or to displace the silver currency, but rather to avoid such a result, or to check the tendency in that direction, so far as it can be done consistently with the adoption of the gold standard. We are consequently led to the conclusion that, while we give certain facilities for the introduction of gold coins into India, we should not yet go so far as to declare them a general legal tender; and that we should at the same time, make provision for the coining of silver, without limit as to quantity, but on terms that will give no advantage to the introduction of silver in relation to gold.

" 51. These objects we propose to attain as follows:—We first take power to receive British or British Indian gold coin jn payment for any demands of the Government, at rates to be fixed from time to time by the Government, till the exchange has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling, permanently at two shillings. Simultaneously with this, the seignorage on the coining of silver would be raised to such a rate as would virtually make the cost of a rupee, to persons importing bullion, equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage, at the fixed gold rate, as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable."

Such was the scheme outlined by the Government of India. The reason why it rejected the Smith plan, although it was simple, economical, and secure, was because it contemplated a demand by India on the world's dwindling stock of gold. Now, in the circumstances then existing, this was a fatal defect, and the powers-that-be had already decided that at all cost India must be kept out of what was called the " scramble for gold." Therefore, to have proposed an effective gold standard was to have courted defeat. A mild and diluted edition of a gold standard such as was proposed by the Government was all that stood any chance of success. But even this timid attempt did not fare well at the hands of the Committee appointed jointly by the Secretary of State and the Chancellor of the Exchequer to examine and report upon the proposals. The members of the Committee were " unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government." The reasons which led to the rejection of the proposals we are not permitted to know. Although the Report of the Committee was made public, the proceedings have never seen the light of day. Indeed, there has been a most stern and obstinate refusal on the part of the officials to allow a peep into them. Why they should be regarded as confidential after a lapse of nearly half a century it is difficult to imagine. Enough, however, was revealed by Sir Robert Giffen, who was a member of this Committee, in evidence before the Indian Currency Committee of 1898 for us to know the contents of this closely guarded document. It seems that the Committee declared against the proposals because it thought they were calculated to make the Indian currency a " managed " currency. At the time when the Committee delivered its opinion the current prejudice was unanimously against such a system. All acknowledged writers on currency were pronounced opponents of an artificially regulated systemA naturally automatic currency was their ideal. In addition to being misled by this prejudice, the Committee felt convinced that the situation would soon ease itself by the natural working of economic forces without necessitating a reform of the Indian currency. This conviction on the part of the Committee was founded on the high authority of the late Mr. Walter Bagehot that the disturbance could not but be temporary. His argument was that the depreciation would encourage exports from India, and discourage imports, and the unfavourable balance of trade thus brought about would induce a flow of silver to India, tending to raise its price. He was also of opinion that increased demand for silver would also arise from outside India. He argued that the reduction of demand caused by the demonetisation of silver by some countries would be more than compensated for by the adoption of silver by other countries then on a paper basis for their impending resumption's of specie payment.

Whatever might be said with regard to the Committee's preference of a natural to an artificial system of currency, there can be no doubt that in turning down the proposals of the Government, in the hope that silver would recover, it was grossly deceived. The basic assumptions on which the Committee was led to act failed to come true. To the surprise of everybody India refused to absorb this "white dirt." Indeed, it was one of the puzzles of the time to know why, if silver had fallen so much in Europe, it did not go to India in larger quantities. Many blamed the Secretary of State for the sale of his Council Bills.

These bills, it was said, presented an alternative mode of remittance so much better as to prevent the sending of silver to India, and thereby caused a diminution in the demand for it. That this was not a correct view is obvious. Silver could not have gone to India more than it did even if Council Bills had been abolished. Council Bills must be regarded as ordinary trade bills drawn against services and commodities, and could not be said to have competed with the transmission of bullion in any special manner different to that attributable to the trade bills. The only bearing the Council Bills may be said to have had upon the issue in question lies in the fact that to the extent they figured in the transactions they prevented India from buying other commodities. But there was nothing to prevent her residual buying power left over after paying for the Council Bills from being utilised in the purchase of silver in preference to other commodities. That this buying power would be used in purchasing silver because it was depreciated in Europe was theoretically an unsound assumption on the part of Mr. Bagehot. The deciding factor which could have caused such a diversion of this residual buying power to the purchase of silver was whether it was *appreciated in India.* Only on that condition could there have been a flow of it to India. But as matters then stood, it was the opinion of Prof. Pierson that when the general depreciation of silver commenced all over the world, it had been forestalled in that part of the globe in which India lies. India was already glutted with silver. Under ordinary circumstances India would have sent back a large portion of its silver to Europe. But the general depreciation prevented her from doing so; and now there were two opposing forces, one tending to produce an export of silver from India to Europe and the other tending to produce an export of silver from Europe to India; and, although the latter was the stronger of the two, the former was sufficiently powerful to prevent any considerable quantity of silver from being exported from Europe to India. If the Committee was deceived in one part of its assumptions, it was also disappointed in others. Far from resuming specie payments in terms of silver, as Mr. Bagehot expected the countries then on paper basis to do, they one and all demonetised silver to the great disappointment of all those who adhered to the policy of "wait and see."

The falsification by India and other countries of such anticipations led to a change in the angle of vision of most of the European countries who had theretofore shown no inclination to do anything by way of reducing the chaotic currencies to some kind of order. They were advised by eminent authorities not to hurry. Jevons said :—

> " We only need a little patience and a little common sense to surmount the practical difficulties. Within the next few years good harvests in India will, in all probability, enable that country to buy up all our surplus silver, as it has been in the habit of doing, with rare exceptions, since the time of Pliny...... In future years any amount of silver could be got rid of without loss, if it be sold gradually and cautiously." When, however, it was found that the waiting period would be more painful if not longer than what it pleased the proverbial peasant to undergo, in order to let the stream run dry so as to permit of his forbidding it without wetting his feet, there grew up an agitation in Europe to undertake the necessary reform to prevent the depreciation of silver.

Far from being sentimental, the agitation was real and derived its force from the evils which arose out of the existing currency conditions. The monetary condition of most of these countries was very unhealthy. Their schemes of an effective gold standard with silver as token currency were arrested in the midst of their progress. Germany, when she demonetised silver, had retained her silver thalers as full legal tender at the old ratio with gold, only to get time to be rid of them to the extent necessary to reduce them to a truly subsidiary position. But, before she could do so, her policy of demonetisation had commenced to tell upon the value of silver, and the continued fall thereof compelled Germany to retain the thalers as legal tender at their old value, despite the fact that their metallic value was fast sinking. Precisely the same was the result of the action of the Latin Union on their system of currency. They had stopped their further coinage of the silver five-franc pieces ; but they could do nothing with those that were already coined except to permit them to circulate at the old mint par, although the metallic par continued to change with changes in the market values of gold and silver. The United

States was also involved in similar evils, although they arose from choice rather than from necessity. Yielding to an agitation of the silver men, it passed in 1878 a law called the Bland Allison Act, requiring the Secretary of the Treasury to purchase and coin each month not less than $2,000,000 and not more than $4,000,000 worth of silver bullion into standard silver dollars, which were to be full legal tender for all debts public and private, " except where otherwise expressly stipulated in the contract,"

As the metalic value of these dollars fell with every fall, while their legal value remained as before, they became, like the thalers and the francs, overvalued coins. It is clear that when the stock of a country's currency is not equally good for all purposes it is relatively speaking in an unsatisfactory condition. Though good for internal purposes, these coins were useless for international payments. Besides making the whole currency system unstable and top-heavy, they could not be made to serve the purpose of banking reserves, which it is the *prime* function of a metallic currency to perform in modern times. The possibilities they opened for illicit coinage were immense. But what made their existence such a source of menace was the fact that a large proportion of the total metallic money of these countries was of this sort. The figures given by Ottomar Haupt in Table XXIII *(see* p. 461) prove sufficiently the difficulties that these countries had to face in regulating and controlling such a mass of token currency.

If a gold-standard country like England had escaped these difficulties it was only to meet others equally embarrassing. As has been pointed out before, the continued fall of prices, the reflex part of the appreciation of gold, had produced a depression in the trade and industry of the country never known before in its history. Apart from this, the monetary disturbances affected the yield on capital investment, the mainstay of so many of her people, by reducing the field for its employment. Said the American Commission :—

> "Within twenty years from 1877 to 1897, it could probably be correctly stated that the power of money to earn dividends was reduced to one-half, or in nearly that proportion. That reduction of the earning power of capital affected injuriously everybody who depended upon investments for a living. It affected also the profits and enterprises of the captains of industry and the kings of finance. In England and in France the price of Government securities rose to a point which made it no longer possible for the man of small means to invest in them and acquire an adequate support during his declining years."

It is, of course, open to doubt whether the conclusion drawn is the right one. But the fact remains that owing to monetary disturbances the field for the investment of English capital had become considerably restricted. And, as a way of getting a living, capital investment was an important resource to the English people.

To mend such a situation there were convened one after another three International Monetary Conferences to establish a bimetallic par between gold and silver. The first International Monetary Conference was convened at Paris in the year 1878 at the invitation of the United States. The second met at the same place in 1881 at the joint call of France and the United States. The third and the last assembled by the wish of United States in Brussels during the year 1892.

From the gravity of the situation nothing could have been more natural than to expect these Conferences to fructify into an agreement upon the consummation of the project for which they were called into being. But, far from reaching any agreement, the deliberations of these Conferences proved to be entirely futile. Only the second Conference showed any sign of agreement. The first and the third marked a strong deviation in the opposite direction. The advance, if any, that was made, as a result of these deliberations, was summed up in the pious opinion that it was necessary to retain and enlarge the monetary use of silver. But so weak on the whole was the response that practice failed to testify as to the sincerity of this solemn declaration.

TABLE **XXIII**

DISTRIBUTION OF THE STOCK OF MONEY IN DIFFERENT COUNTRIES

Countries		Monetary Circulation at the *Beginning* of 1892.				
		Gold.	Silver.	Uncovered Notes	Fractional Currency.	Billon Money.
Austria	fl.	65,000,000	197,000,00	601,000,000	40,000,000	14,000,000
England	.£	118,000,000	—	10,000,000	26,000,000	1,900,000
France	fr.	3,900,000,000	3,200,000,000	572,000,000	280,000,000	280,000,000
Germany	m.	2,500,000,000	430,000,000	450,000,000	457,000,000	57,000,000
Holland	fl.	64,000,000	135,000,000	98,000,000	7,600,000	1,800,000
Italy	. li	485,000,000	81,000,000	847,000,000	150,000,000	75,000,000
Russia	. £	59,500,000	—	51,200,000	8,200,000	1,000,000
Spain	. pes.	160,000,000	646,000,000	548,000,000	190,000,000	157,000,000
U.S.A.	doll.	671,000,0010	458,000,000	419,000,000	77,000,000	18,000,000

The reasons for the failure of these Conferences to reach a bimetallic agreement have not been properly understood. One cannot read the debates on bimetallism at these Conferences without observing that the opposing parties approached the subject with different objectives. To one the principal objective was the maintenance of a stable ratio of exchange between gold and silver irrespective of the question whether one or both remained in circulation; to the other it was the maintenance of the two metals in concurrent circulation. As a consequence of this difference in the lines of their approach an agreement on a bimetallic project became well-nigh impossible.

The workability of bimetallism in the sense of maintaining a stable ratio between gold and silver is necessarily an indefinite proposition. Nonetheless, it cannot be said, if the debates at these Conferences are taken as a guide, that the possibility of a successful bimetallic system in the stable-ratio sense of the term had been denied by the majority of economic theorists, or by the Governments who met at these Conferences. On the other hand, the Conference of 1881, the most important of the three, was remarkable for its confession regarding the workability of the system. All Governments, barring a few minor ones, were in favour of it. Even the British Government, in consenting to bring into operation the silver clause of the Bank Charter Act, must be said to have given its word of approval.

But what did bimetallism promise, as a piece of mechanism, to maintain the two metals in concurrent circulation ? The bimetallists used to cite the example of France in support of the stability of the double standard. But was there a concurrent circulation of two metals in France under the bimetallic system ? Far from it. For, although it was a virtue of the system that changes in the production of the two metals made no appreciable variations in the fixed ratio of exchange, yet the slightest of such as did occur were sufficient to effect the greatest revolution in the relative circulation of the two metals, as the following table clearly brings out:—

TABLE XXIV

MINTAGE OF GOLD AND SILVER IN FRANCE

Period	Gold Million Francs	Silver Million Francs	Ratio of Value
1803 to 1820	868	1,091	1: 15.58
1821 to 1847	301	2,778	1: 15.80
1848 to 1852	448	543	1: 15.67
1853 to 1856	1,795	102	1: 15.35
1857 to 1866	3,516	55	1; 15.33
1867 to 1873	876	587	1: 15.62

In mitigation of this, the bimetallists had nothing to offer. There were, no doubt, such schemes as the one proposed by Prof. Marshall, consisting of paper based on a linked bar of gold and silver in certain fixed proportions, having the object of converting this " either-metallism " into double-metallism. But such schemes apart, the free-mintage-cum-fixed-ratio plan of bimetallism gave no guarantee against alternation in the circulation. Indeed, under that plan the alternation is the very soul of the mechanism which keeps the ratio from being disturbed. The only thing the bimetallists could say in mitigation of this was thatthe alternation in currency would confine itself to bank reserves and would not be extended to the pockets of the people. This was only an eyewash, for how could the banks arrange their reserves except in conformity with the prejudices of the people ? Even international agreement to use gold and silver at a fixed ratio was no guarantee that this concurrent circulation would be maintained. Stability of ratio did depend to a large extent upon an international agreement, for, although it could be maintained by the action of one nation, the deviations of the ratio in that case would probably be greater. But mere international agreement has no virtue of itself to prevent one metal driving out the other. To suppose that Gresham's Law is powerless under international agreement is a gross mistake. Gresham's Law is governed by the relative production of the two metals to the total currency needs of the movement. Supposing the production of one metal relatively to the other was so enormous as to more than suffice for the currency needs, how could international agreement prevent the former from driving the latter entirely out of circulation ? On the other hand, international agreement, far from discouraging, would encourage the process.

In adopting bimetallism, therefore, the nations had to make a choice between a stable ratio and a concurrent circulation, for there might arise a situation in which there was a stable ratio but no concurrent circulation of both the metals. If the Conferences broke down, it was not because they did not recognise the possibility, which was unanimously upheld by such an impartial tribunal as the Gold and Silver Commission of 1886, of a stable ratio being maintained under a bimetallic regime. They broke down because the bimetallic system did not guarantee the concurrent circulation of the two metals. However, it is certain the impossibility of concurrent circulation could not have been such a drawback if the immediate effect of bimetallism would have been a flow of gold into circulation. But as matters then stood the immediate effect would have been to bring silver into circulation. It was this more than anything else which scared away most of the nations from the adoption of the bimetallic system. Now, it is a curious thing that nations which

had assembled together to bring about a stable ratio between gold and silver should have rejected a system which gave a promise of such a stability on the comparatively less significant ground that it had the effect of altering the composition of the circulation from gold to silver. But the fact must be recognised that at the time the question of reconstituting the bimetallic system was agitating the public mind, in most of the European countries gold and silver had ceased to be regarded as equally good for currency purposes. The superiority of gold to silver as a carrier of large value in small bulk was coming more and more to be appreciated in the latter part of the nineteenth century, and no plan of stabilisation which did not provide for the unhindered circulation of gold was likely to meet with common approval. This prejudice was in no way confined to a gold-standard country like England. The closing of the Mints by the Latin Union is a proof positive of the change in the attitude of the bimetallic countries. As Jevons argued
:—

"So long ...... as its operation resulted in substituting a beautiful coinage of napoleons, half-napoleons, and five-franc pieces in gold for the old heavy silver ecus, there was no complaint, and the French people admired the action of their compensatory system. But when [after 1873] it became evident that the heavy silver currency was coming back again...... the matter assumed a different form."

So great was the prejudice in favour of gold that the interests of the chief Powers in the various Conferences, it may be truly said, waxed and waned with the changes in the volume of their gold reserves.

In 1878, the United States took the lead in calling the Conference because the working of the Bland Allison Act checked the inflow of gold necessary for its cash payments. Germany was indifferent because she had enough gold and was confident of selling off her demonetised silver without loss. In 1881 France and Germany showed more anxiety for reform because the former had lost all her gold and the latter was unable to palm off her silver. By 1892 none was so poorly supplied with gold as was the United States, largely as a result of a reckless policy which did her harm without doing good to anyone else, and she was therefore left alone to support the cause of silver.

Possessed as almost every Government was by this prejudice for gold, it was not an ineradicable prejudice. What the countries wanted was a lead from an influential nation. Throughout the debates at these Conferences one thing stood out very clearly. If England could have brought herself to adopt a bimetallic system, others, like sheep, would have followed suit. But she was too much wedded to her system to make a change, with the result that bimetallism, as a way out of the currency difficulties, became a dead project.

The vanishing of the prospect of re-establishing the bimetallic system as a result of her obstinacy was a small matter to the European countries. They had virtually made gold, the international form of money, as the basis of their currency, and were therefore quite indifferent as to the issue ; but it was a terrible blow to the hopes of India. After the proposal of 1878 had been turned down, bimetallism was considered by the Government of India as the remedy, and its advent looked forward to for salvation. It is true that in the beginning of bimetallic discussions the attitude of the Indian Government was rather lukewarm. In a dispatch dated June 10, 1881,
to the Secretary of State, it was revealed that the Government of the time was divided in its opinion regarding the merits of bimetallism. The Viceroy and another member of Council refused their support on the ground that bimetallism was unsound in principle,* and even the majority who thought differently on this aspect of the question were not then prepared to go to the length of joining a bimetallic union, although they did not see any objection to doing so " if a sufficiently large number of other Governments were prepared to join " in it. With the growth of their financial difficulties, however, this slender faith in bimetallism considerably deepened, so much so that in 1886 the Government addressed to the Secretary of State a dispatch urging him to take the initiative in calling an International Monetary Conference to establish a stable ratio between gold and silver. So intense was its interest in the consummation of bimetallism that it did not hesitate to administer a sharp rebuke to the Treasury when they negatived its suggestion referred to them for consideration by the Secretary of State. With such feelings of faith and hope the Government of India entered these international Conferences and watched their fortunes. But no Government could have been treated with such suspicion and injustice as was the Government of India. Its admission to the bimetallic union was desired by none of the Powers, not even by England. It was treated as a villain whose advances were nothing but maneuvers to pounce upon the already dwindling stock of gold. Not only was it planned to keep India out of the bimetallic union, but she was to be required to pledge herself not to take a mean advantage of the union after its efforts had succeeded in establishing a stable ratio by making gold legal tender. All these guarantees the Government of India had offered in a pathetic faithfulness to the cause of bimetallism, on the success of which it had depended so much. Consequently, when the attempt failed, the disappointment caused to the Government of India almost broke its heart. It is not too severe to say that the part played by the British authorities in causing this disappointment was highly irresponsible—one might almost say wicked. They forced India against her declared wishes to keep to the silver standard, partly to trail her off from

making any demand for gold, and partly to silence the criticisms of other nations that Britain was not taking her share in the matter of rehabilitating silver. This was not the only advantage exacted from a country bound to obey. On the one hand it restrained the Government of India from taking any independent line of action in the matter of currency reform, and on the other such means as were calculated to make good the losses which arose from a depreciating currency were subjected to Parliamentary censure. The House of Commons was twice moved, once in 1877 and again in 1879, to resolve that the Government of India should lower its tariff, ostensibly in the interest of free trade, but really in the interests of relief to the depressed condition of Lancashire. The consequence was that the Government could not tap one important source of its revenue in times of its greatest adversity. The only adequate recompense, the British authorities could have made to a Government so completely paralysed by their dictations, and of whose interests they so loudly claimed to be the lawful trustees, was to have consented to join the bimetallic union, the consummation of which only waited upon their grace. But, as is well known, they did nothing of the kind, so that, after a period of enforced waiting and by no means unavoidable suffering, the Government of India, at the end of 1893, found itself just where it was at the beginning of 1878.

Like all common-sense people who pray and yet do not fail to keep their powder dry, this interval was utilised by the silver-ridden countries, with the exception of the United States, in strengthening their gold basis no less than in attending the deliberation of the Monetary Conferences on the amusing plans for extending the use of silver.

Mr. Goschen, at the Conference of 1878, had quite philosophically remarked that States feared to employ silver because of its depreciation and the depreciation continued because the States feared to employ it. Now, if the first part of the diagnosis was correct, we should have found the States seriously engaged in the task of rehabilitating silver when its price was propped up by the silver legislation of the United States. On the other hand, just so far as the monthly purchases of silver, under the Bland Allison Act of 1878, or the Sherman Act of 1890, held up the price of silver, not only did they not feel anxious to take steps to restore it to its former position, but they actually took advantage of the rise to discard it. And it is not possible to blame them either, for with the prospect of a bimetallic union vanishing into thin air the accumulation of this dead weight would have only ended in a gratuitous embarrassment. India alone refused to profit by the squeeze, which the United States took vicariously for other nations, and allowed precious time to slip by, with the result that it was thrown back upon the same remedy, the adoption of which was negatived in 1878.

If it was to be a gold standard it would have been better if it had been done in 1878. The plan then outlined by the Government of India was no doubt too complicated and too flimsy to be practicable. But its rejection should not have altogether suspended the introduction of a gold standard. If it was to be one of an orthodox kind on the English pattern, it would have no doubt involved some cost to the Government in being obliged to sell at a reduced price a part of the silver stock of the country in order to give the rupee a subsidiary position and to fill the void by a gold currency. The cost of this conversion in 1878 would have been inconsiderable, for the fall of silver from its normal gold price was only 12 1/2 per cent. On the other hand, if it was to be on such an unorthodox plan as that of Colonel Smith, it would have involved no cost at all to the Government beyond that involved in the installation of new machinery for the coinage of gold at the Mint. But in 1893 both these processes of bringing about a gold standard seemed quite hopeless. The impossibility of the plan of conversion was quite out of the question. The fail in the value of silver in 1893 was nearly 35 per cent. Even the prospect of the Smith plan did not appear very bright owing to the enormous addition of rupees to the circulation of the country. If it had been adopted in 1878, all the subsequent additions to the currency would have been in gold, with the result that by 1893 the proportion of gold to silver would have been large enough to have endowed the whole currency system with the desired stability in relation to countries on a purely gold basis. In 1893 the mass of silver currency had grown to enormous proportions, so that it looked certain that it would take decades before the stoppage of silver coinage could make the rupee a stable and secure form of currency.

The plans showing a way out of an *impasse* such as this were legion. One was the issue of heavier rupees.

The second was to make silver limited legal tender and to authorise the Secretary of State to sell in London gold or silver Indian stock to the extent of his gold payments, to be liquidated by the Government of India by the issue of unlimited legal-tender notes called " bons." The third was that England and India should, as between them, adopt a bimetallic standard on a new basis, or to admit the rupee as full legal tender in the United Kingdom. The fourth was to regulate the opening and closing of Mints to coinage on the basis of deviations of actual exchange rates from the rate of exchange fixed at the opening of each year for the Council drafts of the Secretary of State. Under this scheme, so long as the actual rate did not exceed the fixed rate by less than 5 per cent., the free coinage of silver was to be suspended. The fifth was to provide that on the one hand the Secretary of State should fix a minimum rate for his drafts, and that the Government of India on the other should levy a duty on all imports of silver equal to the difference between the daily official quotations of bar silver in London and the price of silver corresponding to the rate fixed for the Council drafts. The sixth was to introduce a bimetallic coin, to be called the imperial florin or rupee, made of the value of 2s. and containing 4 per cent. weight in gold and the balance in silver. The seventh was to establish independent gold and silver standards without any fixed ratio of exchange between them, or with some slight inducement for the use of gold in transactions of larger denominations. Although the Government of India was not in agreement with these clever if not crazy plans of currency reforms, it agreed in the aim they had in view, namely, to place India on a gold basis without involving the actual use of gold in place of the existing rupees in circulation. With this aim in view it revived for adoption the more simple and more scientific plan of Colonel Smith. As a preliminary, the Government reverted to the policy of the resolution of the Bengal Chamber of Commerce, to the adoption of which it saw such "fatal objections " in 1876. In the dispatch dated June 21, 1892, which contained the proposals, the Government of India asked for nothing more. In the words of their author they proposed

> "......That the Indian Mints should be closed to the unlimited coinage of silver, and *no further steps taken* until the effect of closing the Mints had been ascertained.
>
> "The ratio at which the change from silver to the gold standard should be made was subsequently to be settled and it was said that a ratio based on the average price of silver during a limited period before the Mints had been closed would probably be the safest and most equitable. When this ratio had been settled, the Mints were to be opened to the coinage of gold at that ratio, and gold coins were to be made legal tender to any amount."

These proposals were submitted for examination to a Departmental Committee, commonly known as the Herschell Committee. They were said to be defective in one important particular, and that was the absence of due recognition of the necessity of a gold reserve for the maintenance of the value of the rupee. Many people felt doubtful of the success of the proposals unless backed by an adequate gold reserve. But the Herschell Committee, after an extended investigation into the working of the currency systems of different countries, reported

:—

"It is impossible......... to review foreign systems of currency, without feeling that, however admirable may be the precautions of our own [English] currency system, other nations have adopted different systems which appear to have worked without difficulty, and enabled them to maintain for their respective currencies a gold standard and a substantial parity of exchange with the gold-using countries of the world" with little or no gold. The Committee, therefore, was completely satisfied with the proposals of the Government of India, and not only sanctioned their adoption,

but added, by way of introducing a modification in them, that

"The closing of the Mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1s. *4d.* per rupee, and that at the Government Treasuries gold will be received in satisfaction of public dues at the same ratio.

These recommendations were carried into effect on June 26, 1893, which forms as great a landmark in the history of Indian currency as did the year 1835. On that date were promulgated one legislative enactment and three executive notifications, together calculated to accomplish the object in view. The Act (VIII) of 1893 was only a repealing Act. It repealed:—

(i) The Indian Coinage Act, XXIII of 1870. Sections 19 to 26 (both inclusive), requiring the Mint Masters to coin all silver brought to their Mints for coinage.

(ii) The Indian Paper Currency, 1882.

(a) Section 11, Clause (*b),* requiring the Paper Currency Department to issue notes against silver coin made under the Portuguese Convention Act, 1881. *(b)* Section 11, Clause (d), requiring the Paper Currency Department to issue notes against silver bullion or foreign silver coin.

(c) Section 13. Only the proviso limiting the gold portion of the Paper Currency Reserve to one-fourth of the Total Reserve.

These repeals by the Act were supplemented by an executive Notification No.. 2663, announcing in conformity with the suggestion of the Herschell Committee that the Government Treasuries would receive sovereigns and half-sovereigns of current weight in payment of public dues at the rate of 15 rupees and 7 rupees 8 annas respectively.

Since gold was not made general legal tender by any *of* the above measures, it was feared that the Government might be embarrassed by the accumulation in its Treasuries of a stock money which it could not pay out in discharge of its obligations. To enable Government to rid the Treasuries of gold, should it accumulate in them to an inconvenient extent, there followed another Notification, No. 2564, requiring that the Currency Department should issue, on the requisition of the Controller-General, currency notes in exchange for gold coin or gold bullion, at the rate of one Government rupee for 7.53344 grs, troy of fine gold, or sovereigns or half-sovereigns at the rate or 15 rupees and 7 rupees 8 annas respectively.

To give effect to the second modification introduced by the Herschell Committee, there was issued a third Notification, No. 2662, to the effect that

> "The Governor-General in Council hereby announces that, until further orders, gold coins and gold bullion will be received by the Mint Masters of the Calcutta and Bombay Mints respectively, in exchange for Government rupees, at the rate of 7.53344 grs. troy of fine gold for one rupee on the following conditions
>
> (1) Such coins or bullion must be fit for coinage.
>
> (2) The quantity tendered at one time must not be less than 50 tolas.
>
> (3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the Mint.
>
> (4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of the rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller-General may fix, from time to time."

Before the policy adumbrated by these measures was carried to completion there came up a move for the undoing of it. After (he failure of the International Monetary Conference of 1892 the United States and France, two countries most heavily burdened with an overvalued stock of silver, opened negotiation with the British Government, asking the latter to agree to certain conditions on the grant of which they were to open their Mints to the free coinage of silver at the ratio of 15 1/2 to 1. These conditions included :

(1) Opening of the Indian Mints, which had been closed to the free coinage of silver, and an undertaking not to make gold legal tender in India.

(2) Placing one-fifth of the bullion in the Issue Department of the Bank of England in silver.

(3) (a) Raising the legal-tender limit of silver in England to £10.

(b) Issuing the 20s. notes based on silver, which shall be legal tender.

(c) Retirement, gradual or otherwise, of the 10s. gold pieces, and substitution of paper based on silver.

(4) Agreement to coin annually a certain quantity of silver.

(5) Opening of English Mints to the coinage of rupees and for coinage of British dollars, which shall be full legal tender in Straits Settlements and other silver-standard Colonies, and tender in the United Kingdom to the limit of silver legal tender.

(6) Colonial action, and coinage of silver in Egypt.

(7) Something having the general scope of the Huskisson plan.

In these negotiations the Treasury again reverted to its old pose. It refused to discuss the conditions requiring a change in the British currency, but argued that the opening of the Indian Mints, if brought about, should be regarded as an adequate " contribution which could be made by the British Empire towards any international agreement with the object of securing " a stable monetary par of exchange between gold and silver

and the representatives of the United States and France seemed to have concurred in that view. The negotiations, however, failed, because of the firm stand taken by the Government of India. The Government had suffered too long to be the scapegoat of the Treasury. Nor did it see any reason why it should be called upon to pull the chestnuts off the fire for the benefit of France and the United States, in a letter commenting upon the proposals, the Government of India observed:—

"The changes which are involved in the arrangements proposed to Her Mahesty's Government are the following: France and the United States are to open their Mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered in the French ratio of 15 1/2 to 1 in the United States. *India is to open her Mints to silver to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver) ,whilst most of the other important countries of the world would be monometalllic (gold).*

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" The first result of the suggested measures, if they even temporarily succeed in their object, would be an immense disturbance of Indian trade and industry, by the sudden rise from about 16d. to about 23d. the rupee. Such a rise is enough to kill our export trade, for the time at least...... such an arrangement as is proposed is an infinitely more serious question for

India than for either of the other two countries, for it seems clear that practically the whole risk of disaster from failure would fall on India alone. What would' happen in each of the three countries if the agreement broke down and came to an end ? France possesses a large stock of gold, and the United States are at present in much the same situation as France, though the stock of that metal is not so large. It may be admitted that if no precautions were taken these gold reserves might disappear under the operation of the agreement, and in that case, if the experiment ultimately failed, the two countries concerned would suffer great loss. But it is inconceivable that precautions would not be taken, at all events, so soon as the danger of the depletion of the gold reserves manifested itself, and, therefore, it is probable that no particular change would take place in the monetary system of France or the United States, the only effect of the agreement being a coinage of silver which would terminate with the termination of the agreement. Thus the whole cost of the failure, if the experiment should fail, would be borne by India. Here the rupee would rise with great swiftness, it would keep steady for a time, and then, when the collapse came, it would fall headlong. What course could we then adopt to prevent the fluctuation of the exchange value of our standard of value with the fluctuations in the price of silver ? We do not think that any remedy would be open to us, for if the Indian Mints were reopened to silver now, it would...... be practically impossible for the Government of India to close them again, and even if they were closed it would only be after very large additions had been made to the amount of silver in circulation."

But soon after it had refused to be diverted from the goal it had placed before itself, namely the introduction of a gold standard, it was faced with a crucial problem in its existing monetary arrangements. The rupee stock, the addition to which was stopped since 1893 by the closure of the Mints, was large enough to meet the needs of the people for some considerable time. In the first few years after the closure, the rupee currency was not only abundant but was also redundant. Soon it ceased to be redundant, and indeed by the end of 1898 it became scarce, so much so that the discount rate in the Indian money market rose to 16 per cent., and continued at that pitch during the larger part of the year. Such was the outcry against what was called the policy of " starving " the currency, that the Government was obliged to pass an Act (No. II) of 1898 to permit currency notes issued in India against gold tendered in London to the Secretary of State. The Act was doubly easeful to the then starved condition of the Indian money market. By the measures adopted in 1893 gold was not genera! legal tender, so it could not be used when the rupee currency fell short of the needs of the time. The new Act, it is true, did not make gold general tender, but permitted it to be used on behalf of the general public as a backing for the issue of currency notes which were general legal tender. The Act, however, could have required that gold be laid down *in India* before notes could be issued. But as the remittance of gold to India took some three or four weeks, it was feared that the remedy might " prove too tardy to be effective " unless the interval was done away with by providing that gold with the Secretary of State in London was lawfully tantamount to gold with the Paper Currency Department in India for the purposes of note issue.

In doing this the Act only testified to the urgency of the situation. A sound currency system must be capable of expansion as well as contraction. The Government, by the closure of the Mints in 1893, had contracted the currency to the point of danger. In 1898 it was called upon to undertake measures to provide for its expansion. Now, there were two methods open to bring about this desired result. One was to keep the Mints closed and to permit additions to currency through the use of the gold by making the sovereign general legal tender. This was the plan proposed by the Government of India. In their dispatch dated March 8, 1898 they argued :—

" Our present Intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year: and as we print no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will raise exchange to a point at which gold will flow into the country, and remain in circulation. The position will thus become stronger and stronger as time goes on, but at the beginning at least, gold will not be in circulation in the country to more than the extent necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country could create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or, at the very best, stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense; and this last may possibly not be necessary at all."

Besides expanding the currency through the use of gold, there was also another mode of effecting the same object. It was urged that this increase of currency might as well take place by Government coining rupees whenever there arose a need for additional currency. Though the Mints were closed, the Government, by Notification No. 2662, had undertaken to give rupees to anyone desiring to have them at the rate of 7.53344 grs. troy of fine gold per rupee.

The Government had only to give effect to that notification to augment the currency to any extent desired. Prominent in the advocacy of this plan of expanding the currency were Mr. Probyn and Mr. A. M. Lindsay. Both claimed that the plan of the Government of India was defective because, although it provided for the expansion of currency by making gold legal tender, it made the rupee entirely inconvertible, and thereby likely to defeat the policy of stabilising its exchange value. On the other hand, they deemed their plans to be superior to that of the Government of India because they recognised the obligation to provide for the conversion of the rupee currency on certain terms. Although the plans of both of them had contemplated some kind of convertibility, yet they materially differed in the particular mode in which conversion was to be effected. Mr. Probyn proposed

1. That legislative effect should be given to the notification of 1893, under which the public can obtain rupees at the Indian Mints and Reserve Treasuries in exchange for gold, at the rate of 1s. 4d.

2. That the gold so received should be part of the paper currency reserve, ana should be held either in the form of full legal-tender gold coins of the United Kingdom, or gold bars representing not less than Rs. 1,000 each.

3. That in order to give the rupee currency automatic power of contraction. Government should be empowered (though not required) so soon as the portion of the paper currency reserve has continuously for one year been less than that held in gold, to give gold in exchange for rupees or rupee notes at the rate of 1s. 4d., if presented for the purpose in quantities of Rs. 10,000.

4. That the existing Rs. 10,000 notes should be called in. and, in future, notes of Rs. 10,000, payable at the option of the holder either, in gold or in silver rupees, should be issued in exchange for gold alone, gold in the form of bars being specially reserved to meet any such notes outstanding.

Mr. Lindsay, on the other hand, followed on lines quite different from those adopted by Mr. Probyn. He proposed

that the Government should offer to sell, without iimit on the one hand, rupee drafts on India at the exchange of 16 1/16d. the rupee, and on the other hand, sterling drafts on London at the rate of exchange of 15 3/4d. the rupee. The funds necessary for the transactions were to be kept separate from the ordinary Government balances in " Gold Standard " Offices in London and in India. The London Office was to be kept in funds to meet drafts drawn on it—

(1) by borrowing in gold to the extent of five or ten million sterling;

(2) by the receipts realised by the sale of drafts on India:

(3) by the receipts realised by the sale of silver bullion in rupee melted down;

and

(4) when necessary, by further gold borrowing.

The Indian Gold Standard Office was to be kept in funds to meet the drafts drawn on them—

(1) by the receipts realised by the sale of drafts on London ; and

(2) by the coinage when necessary of new rupees from bullion, purchased by the London Gold Standard Office and sent to India.

The principal point of difference between the scheme of currency advocated by the Government of India on the one hand and that put forth by Messrs. Probyn and Lindsay consisted in the fact that the former proposed to establish a gold standard *with* a gold currency, while the latter proposed to establish a gold standard *without* a gold currency.

To adjudicate upon the relative merits of a gold standard with a gold currency and a gold standard without a gold currency, the Secretary of State appointed another departmental Committee, under the chairmanship of Sir Henry Fowler. After taking a mass of important evidence, the Committee observed :—

" 50. On this scheme [of Mr. Probyn] we remark that, while bullion may be regarded as the international medium of exchange, there is no precedent for its permanent adoption for purposes of internal currency; nor does it accord with either European or Indian usage that the standard metal should not pass from hand to hand in the convenient form of current coin. No real support for such a scheme is to be drawn from the purely temporary provisions of " Peel's Act " of 1819, whereby, for a limited period, the Bank of England, as a first step to the resumption of cash payments, was authorised to cash, in stamped gold bars, its notes, when presented in parcels of over £ 200. Little or no demand for gold bullion appears to have been made on the Bank itself in 1821.

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" 53. It is evident that the arguments which tell against the permanent adoption of Mr. Probyn's bullion scheme, and in favour of a gold currency for India, tell more strongly against Mr. Lindsay's ingenious scheme for what has been termed ' an exchange standard.' We have been impressed by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu and others, that any system without a visible gold currency would be looked upon with distrust. In face of this expression of opinion, it is difficult to avoid the conclusion that the adoption of Lindsay's scheme would check that flow of capital to India upon which her economic future so greatly depends. We are not prepared to recommend Mr. Lindsay's scheme, or the analogous schemes proposed by the late Mr. Raphael and by Major Darwin, for adoption as a permanent arrangement; and existing circumstances do not suggest the necessity for adopting any of these schemes as a provisional measure for fixing the sterling exchange."

The Committee preferred the scheme of the Government of India, and outlined a course of action to be adopted for placing it on a permanent footing, which may be stated in the Committee's own language as follows:—

"54. We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward, as we do, to the effective establishment in India of a gold standard and currency, based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption." These recommendations were accepted by the Secretary of State,

who decided that—

"the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained, " and called upon the Government of India as soon as it deemed expedient to

" take the necessary steps for making the British sovereign a legal tender and a current coin. and make preparations for the coinage of gold under the conditions suggested by the Committee."

The first recommendation of the Committee was given effect to by the Government passing an Act commonly called the Indian Coinage and Paper Currency Act (XXII) of 1399. That Act made the sovereign and half-sovereign legal tender throughout India at the rate of Rs. 15 and Rs. 7 1/2 respectively, and authorised the issue of currency notes in exchange for them.

Along with placing the Indian currency on a gold basis, the Government was anxious to open a Mint for the free coinage of gold. But as the coin to be Issued from the Mint was the English "sovereign " the Government of India was entirely in the hands of the British Treasury,. According to the provisions of the English Coinage Act of 1870, it was necessary to issue a Royal Proclamation in order to constitute an Indian Mint a branch of the Royal Mint, a matter entirely dependent on the consent of the Treasury. It was the intention of the Government of India to announce the Proclamation simultaneously with the passing of the Act making the sovereign legal tender. Indeed it held back the legislation pending the arrival of the proclamation, and proceeded with it reluctantly when it was advised that there was likely to be " some further delay over the Proclamation owing to legal and technical questions." The objections raised by the Treasury, though merely technical, at first seemed to be quite insuperable, and had it not been for the conciliatory attitude of the India Office the negotiations would have broken down. But the Treasury was not willing to give the project a chance. Just when a compromise was arrived at on the technical side of the question, the Treasury turned round and raised the question whether a Mint for gold coinage was at all necessary in India. The Treasury argued :—

"While expressing their satisfaction that an agreement has now been reached, my Lords think it desirable, before practical steps are taken to carry out the scheme, to invite Lord George Hamilton to review the arguments originally advanced in favour of the coinage of the sovereign in India, and to consider whether the course of events, in the two years which have elapsed since the proposal was made, has not tended to diminish their force, and to render such advantages as are likely to accrue from the establishment of a branch Mint wholly incommensurate with the expense to be incurred... The gold standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy. Sovereigns are readily attracted to India when required under existing conditions... On the other hand the estimates of the Government of India of gold available for coinage in that country are less than was anticipated, nor is any considerable increase expected, at any rate for some time......

The staff would have to be maintained in idleness for a large part of the year, at a considerable cost to the Indian Exchequer... It is, of course, for Lord George Hamilton to decide whether, in spite of these objections, the scheme is to be proceeded with."

The India Office replied :—

" The establishment of a Mint for the coinage of gold in India is the clearest outward sign that can be given of the consummation of the new currency system; and to abandon the proposal now must attract attention and provoke criticism and unrest......... His Lordship is not inclined to abandon the scheme at the stage which it has now reached." The Treasury sent a trenchant rejoinder, in which it remarked:—

' Indian currency needs are provided from other sources, and there is no real demand for the local coinage of sovereigns...... My Lords cannot believe that the position of the Gold Standard in India will be strengthened, or public confidence in the intention of the Government confirmed, by providing machines for obtaining gold coin...... The large measure of confidence already established is sufficiently indicated by the course of exchange since the Committee's Report and still more by the readiness with which gold has been shipped to India......"

That the Treasury acted " in a spirit of scarcely veiled hostility to the whole proposal " is unmistakable. But it cannot be denied that the Treasury used arguments that were perfectly sound. It was inconsequential to the working of the gold standard whence the coined sovereigns came. So long as a Mint was open to the free coinage of sovereigns the Indian gold standard would have been complete irrespective of the location of the Mint. Indeed, to have obtained coined sovereigns from London would have not only sufficed, but would have been economical.

The anxiety displayed by the government was not, however, on account of the want of a gold Mint. Indeed, so slight was its faith in the necessity of it that in view of the opposition of the Treasury it gracefully consented to drop the proposal. What troubled it most was the peculiar position of the rupee in the new system of currency. Throughout the dispatch of the Government of India there ran a strain of regret that it could not see its way to demonetise the rupee and to assimilate the Indian currency to that prevailing in England. A general perusal of the dispatch leaves the impression that though it recommended the assimilation of the Indian currency to that of France and the United States, it did so not because it thought that their systems furnished the best model, but because it believed that a better one was not within reach. Having regard to the accepted view of the French and the United States currency systems, it was natural that the Government of India did not feel very jubilant about its own. According to that view of the currency systems of these two countries, the position of the five-franc piece and the silver dollar has always been presented as being very anomalous. Even so great an authority as Prof. Pierson was unable to assign them a place intelligible in the orthodox scheme of classifying different forms of money.

In a well-ordered system of gold standard of the orthodox type, gold is the only metal freely coined and the only one metal having full legal-tender power ; silver, though coined, is coined only on Government account in limited amounts, and being of less intrinsic value than its nominal value, is a limited legal fender. The former type of coins are called standard coins and the latter subsidiary coins, and the two together make up the ideal of a monometallic gold standard such as has been established in England since 1816. In a scheme of things like this, writers have found it difficult to fit in the dollar or the five-franc piece. Their peculiarity consists in the fact that although their intrinsic value is less than their nominal value they have been inconvertible and are also unlimited legal tender. It is owing to this anomaly that the title of gold standard has been refused to the American and French currency systems. Few can have confidence in what is called the limping standard, in which it is said that somehow " the silver coin, though intrinsically of less value than the gold, hobbles along, maintained at equality by being coupled with its stronger associate."

But was the French system of currency so very different from the English as to create doubt as to its stability ? Whatever may have been the differences between the two systems a closer analysis shows that they are fundamentally identical. If we read together the French bimetallic law of 1803 and the Mint Suspension Decree of 1878 on the one hand, and on the other the provisions of the English Gold Standard Act of 1816, together with the Bank Charter Act of 1844, and compare, do we find any substantial difference between the French and English systems of currency? Prior to 1878 there was an unlimited issue in France of both gold and silver coins of unlimited legal tender. Prior to 1844 there was an unlimited issue in England of both gold sovereigns and Bank of England notes, both of unlimited legal tender. In 1844 England put a limit on the issue of bank notes, but did not deprive the issues of their legal-tender power.

In 1878 France did precisely the same thing as England did with her notes in 1844. By the decree of mint suspension, France virtually, though indirectly, put a limit on the silver five-franc coins without depriving them of their legal-tender power. If we regard the French five-franc coins as notes printed on silver, it is difficult to see what constitutes the difference between the two systems which leads economists to call one a gold standard and the other a limping standard. If the silver franc limps or hobbles along, so does the bank note, and the former can hobble better than the latter because of the two it has a comparatively greater intrinsic value. If, however, it is argued that the bank note is convertible into gold, while the five-franc piece is not, the reply is that the comparison must be made with the fiduciary notes of the bank of England. Those notes are practically inconvertible. For, at any given time, with the gold the Bank of England has in its Issue Department the fiduciary portion of the notes remains uncovered, and may, therefore, be regarded as inconvertible as the delimited issue of the five francs. But even if it is insisted that the fiduciary notes cannot be regarded as inconvertible as the five franc pieces, it must be pointed out that the similarity of the two is not to be determined by considerations of convertibility or inconvertibility. The attribute of convertibility with which the fiduciary notes of the Bank of England are endowed is a superfluous attribute which in no way improves their position as compared with the five-franc pieces. What makes them identical is the fact that they are both subjected to a fixed limit of issue. Thus viewed, the French limping standard and the English gold standard are nothing but two different illustrations of the " currency principle " in so far as a fixed limit of issue on a fiduciary currency is a cardinal feature of that principle.

Not only is the French monetary system identical with the English in its organisation, but the design in both cases was identical. In the controversy which raged over the Bank Charter Act of 1844, the motives of Lord Overstone were not quite clearly grasped by his opponents of the banking school of thought. Lord Overstone was not very much interested in providing a method for preventing the depreciation of the note issue, as his opponents thought him to be. His supreme concern was to prevent gold disappearing from circulation. Starting from a chain of reasoning the solidity of which can hardly be said to be open to question, he came to the conclusion that gold would be driven out of circulation by an increase in the issue of notes. To keep gold in circulation the only remedy was to put a limit on the issue of notes, and this was the purpose of the Bank Charter Act of 1844. Now, precisely the same was the object of France in suspending the coinage of silver. As has already been pointed out, owing to the fall in the value of silver after 1873, gold was being rapidly driven out of circulation by the substitution of this depreciated metal. To prevent this result from assuming a vast proportion, the French adopted the same remedy as that of Lord Overstone, and through their suspension of silver coinage protected their gold from going out of circulation, which would have certainly been the case if no limit had been put on silver issues.

It would not, therefore, be amiss to argue that the plan contemplated by the Government of India, and approved of by the Fowler Committee in being similar to the French system, was based on the same principles as governed the English currency system, which, according to Jevons, were a " monument of sound financial legislation."

Contents **CHAPTER V**